# Draft CalPERS Infrastructure Policy – Comments from External Entities
## May/June 2008

| CalPERS Infrastructure Policy |
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| **Comments from AFSCME** |
| This last draft is a significant improvement on the issues related to privatization, so the new language works for us. However, we still have concerns about the amount of leverage indicated in the Portfolio Allocation and Leverage chart appearing on page 3 of the document. The leverage ratios in general remain to aggressive and would like them to be reconsidered by the consultant or have some type of further explanation given as to why such a high use of debt is necessary especially in the Core/Core plus sub allocations. Our view of this asset, as explained in the first AFSCME comment memo, remains that this asset class should exploit the specific characteristics that make it an important allocation for CalPERS -- long-term, stable, inflation-linked cash flows, with more limited risk and associated fees. We would hope that the board and staff consider and incorporate this view in the review process for this policy. |
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| **Comments from LIUNA** |
| We have reviewed the changes made to the proposed CalPERS Infrastructure policy dated June 16, 2008 and find them to be improvements that we support. We appreciate the process that staff undertook to include our concerns and a number of comments that were included in this final policy. We will continue to monitor the application and enforcement of CalPERS' new infrastructure policy and Responsible Contractor Policy on infrastructure investments. |
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| **Comments from PECG** |
| The latest rendition of the draft policy is, if anything, even worse than its predecessors. It does not prohibit investments which would have an adverse impact on your members. To the contrary, it requires your staff to present "investments that would directly impact California public sector jobs" to the Investment Committee for their "consideration". Investment vehicles wouldn't have to recognize the role of public employees. They would only have to make a good faith effort to do so and make another good faith effort to ensure a "de minimus adverse impact on existing jobs".<br><br>The term "existing jobs" is a new addition. Committing to invest funds in a public-private partnership will typically occur well before the project is designed or constructed. It is obvious that the work of your members will be given to private firms, but whether that will affect their "existing job" would not be known at the time of the investment. Thus, the policy would encourage investing your members' contributions and retirement funds in public-private partnerships so your members' jobs can be outsourced to private firms. Our previous correspondence used such terms as "outrageous" and "inexcusable". That criticism remains valid.<br><br>Because not all public employees are your members, in our April 3 memo we suggested adding the following statement: "Regardless of any provision in this or any other PERS policy, the investment vehicle for any infrastructure investment program shall ensure that there will not be any actual or potential adverse employment or other impact on PERS members or participants." We have never received a response to that suggestion. |

## CalPERS Infrastructure Policy

**Comments from SEIU**

Thank you again for the opportunity to provide comments on the proposed Infrastructure policy.

**Section VI.B.1 Infrastructure Program Strategy - Leverage and Sub-asset class allocation ranges**
We believe infrastructure is an attractive asset class because it can offer stable long term returns at or slightly above actuarial rates of return needed to meet long term liabilities with significantly lower risk. For this reason we are concerned that the allowable leverage ratios and that the sub asset class allocations to value-added are quite high and may introduce excessive risk.

**Section VI.D.1 Responsible Contractor Policy and Preference**
1E See 2 C. below
We also reiterate our strong desire to begin a comprehensive review of the Responsible Contractor program beginning some time this summer as soon as it is practicable to do so.

**Section VI.D.2 Domestic Public Sector Jobs**
2A. We would like to see the board's intention with regard to the potential for loss of CA public sector jobs strengthened further.

2B. We do not understand the intent of the changes to the language, which we believe weaken rather than strengthen protections. We recommend language that more closely tracks the language in already operating investment manager policies in order to address board members' interests in better protecting public employee jobs. We propose replacing the draft language with the following:
Staff shall secure a written agreement from the managers of any domestic investment vehicle (as described herein) that states, substantially in all material respects, that " in circumstances where the Fund is working with a State, local or municipal agency to establish public/private partnerships and/or to bid on public offers for the sale, lease or management of public assets, the Fund shall endeavor in good faith to recognize the important role and contribution of public employees to the development and operation of such assets. In particular, the Fund shall make <u>every</u> good faith effort to ensure that such transactions <u>have no more than</u> a de minimus adverse impact on employees. These efforts <u>shall</u> include working directly with public employees, government officials, or collective bargaining groups, as appropriate, with a view to taking such actions as may be needed to mitigate such potentially adverse effects."

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| 2C. (and I E) We suggest the following changes to the enforcement provision of both sections<br>Enforcement. In the event it is determined that during the life of an investment vehicle there is a violation of the above stated terms, ~~staff~~ CalPERS shall be precluded from making an investment ~~a follow on fund with the investment manager.~~ in any other investment vehicle with that investment manager. If Staff determines it appropriate, based on all the facts and circumstances, Staff may recommend such ~~the~~ investment ~~in the follow on fund~~ to the Investment Committee, which will determine whether to invest ~~in the follow on fund~~ consistent with its fiduciary duty.<br><br>We also seek a better understanding of how CalPERS protects itself from risk exposure, during the life of any given fund, in the event that **any** of its investment policies (including those above) are violated. This is a concern for us related to all asset classes, but is of special interest here given the long potential life of infrastructure investment vehicles. |